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2003 FEB 21 A 9 10

February 21, 2003

AZ CORP COMMISSION
DOCUMENT CONTROL

Mr. C. Ed Schuetz
Katherine Resort Water Company
6126 Chrismark Ave.
San Diego, CA 92120

RE: KATHERINE RESORT WATER COMPANY – APPLICATION FOR A RATE
INCREASE, DOCKET NO. W-01751A-03-0036

LETTER OF DEFICIENCY

Dear Mr. Schuetz:

In reference to your rate application received on January 21, 2003, this letter is to inform you that your application has not met the sufficiency requirements as outlined in Arizona Administrative Code R14-2-103.

Staff has found several deficiencies with your application, which are listed on a separate attachment. The 30-day sufficiency determination period will begin anew when the Company corrects the deficiencies and Docket Control receives an original and sixteen copies of the corrected pages.

You have 15 calendar days, or until March 10, 2003, to correct the deficiencies, or make other arrangements with Staff to remedy your rate application. If the corrections or other arrangements are not made by the above date, Staff will request your docket number be administratively closed. Docket Control will retain one copy of the original application for Commission records. You may file an original and sixteen copies of an updated application at a later date.

The Staff person assigned to your application is John D Lawrence. He can be reached at (602) 364-0532, or toll free at (800) 222-7000, if you have any questions or concerns.

Sincerely,

John S. Thornton, Jr.
Chief, Financial & Regulatory Analysis Section
Utilities Division

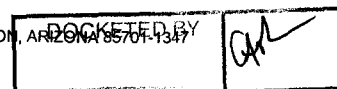
Enclosure

CC: Docket Control Center (sixteen copies)

Arizona Corporation Commission

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Page 2

Robert Kennedy, Consumer Services
Delbert Smith, Engineering
Lyn Farmer, Hearing Division

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Detail of Deficiencies:

Page 13. Dollar amounts for additions and retirements are not listed for each plant account. Enter the dollar amounts for plant additions and retirements for each account in accordance with the instructions provided at the bottom of page 13 of the application.

Page 14. Dollar amounts are not listed for each plant account. The Total Water Plant amount listed in column A does not equal the amount established in Decision No. 60173, dated May 16, 1997. (\$66,885 vs. \$105,521) Addition and retirement totals by plant account should be brought forward from page 13.

To assist you in the completion of page 14, please refer to the Commission Decision issued in the Company's prior rate case. Refer to the Staff Report in the prior rate case for individual account values authorized in the Decision.

Place the original cost of the plant in service per the prior Decision in column A (Plant in Service per Prior Decision).

Complete column D (Test Year End Total), of page 14, for each plant account by adding column A and B and subtracting column C.

The totals for each plant account must then be carried forward to page 15 (Utility Plant in Service), column A, Original Cost.

Page 15. Dollar amounts are not listed for each plant account. The Original Cost for Total Water Plant listed in column A does not equal the amount established in the prior Decision, as it should. (\$66,885 vs. \$105,521)

The Test Year End Totals by plant account on page 14 must agree with the Utility Plant in Service worksheet on page 15, column A, Original Cost. Column B, Accumulated Depreciation, is calculated by adding the depreciation recorded for all years since the test year in the prior rate case through the end of the test year in this case. Column C, Original Cost Less Depreciation, is calculated by subtracting the amounts in column B from column A for each plant account.

Pages 19 and 31. The revenue (\$11,900) generated by applying the rates granted in Decision No. 60173 to the billing determinants in the Bill Count Summary, page 31 of the application, does not equal the Test Year Metered Water Revenue amount on page 19. (\$13,726.51) These figures should be similar in amount.

Please note that Metered Water Revenue should not include amounts the Company was authorized to collect as a monthly surcharge per Decision No. 59080, dated May 5, 1995.

Also, note that Metered Water Revenue should not include amounts collected as sales taxes. Sales taxes should not be included in Taxes Other Than Income on page 19, either. Decision No. 58898, dated December 21, 1994, ordered the Company to include a provision in its tariff to allow for the flow-through of appropriate state and local taxes, as provided for in A.A.C. R14-2-409.D.

Pages 19 and 20. Depreciation Expense for the Test Year was omitted on page 19. The Commission adopted a composite depreciation rate of five percent per year on all depreciable assets in the prior Decision. A.A.C. R14-2-102.B. requires the recording of

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annual depreciation accruals. Please calculate Depreciation Expense on page 20 using five percent.

Page 21. Mathematical calculation of Total Assets for the "Balance at Beginning of Test Year" is \$94,633, not \$98,133. Mathematical calculations of Total Fixed Assets and Total Assets for the "Balance at End of Test Year" are \$86,500 and \$91,034, respectively, not \$93,000 and \$94,534.

Page 21. Utility Plant in Service Balance at End of Test Year (\$93,000) does not equal the total shown on page 15. (\$66,885) The amount should be the same on both pages.

Page 21. Accumulated Depreciation-Utility Plant balance (\$3,500) is not consistent with the amount listed on page 15, "none taken". Accumulated Depreciation-Utility Plant must include the Accumulated Depreciation as stated in the Commission's prior Decision plus the depreciation expense recorded for all years since the test year in the prior rate case through the end of the test year in this case.

Page 22. The amounts shown for the Total Deferred Credits and Total Liabilities lines are not mathematically correct for either the Balance at Beginning of Test Year or Balance at End of Test Year columns.

Page 22. Accrued Interest lists a Balance at Beginning of Test Year and a Balance at End of Test Year. Please explain the transactions that caused a balance in Accrued Interest

Page 22. Long Term Notes and Bonds lists an amount labeled "Plant Cost" of \$96,500. Please explain the transactions that caused the balances shown in Long Term Notes and Bonds.

Page 22. Unamortized Premium on Debt lists \$96,500. Please explain the transactions that caused the balances shown in Unamortized Premium on Debt.

Page 23. Long Term Debt shows two loans totaling \$96,500. Please explain the transactions that caused the balances shown as Long Term Debt.

Page 24. The prior Staff Report established an amount of \$9,450 for Meter Advances. Service Line and Meter Installation Charges authorized in Decision No. 58898 were ordered to be recorded as Advances in Aid of Construction ("AIAC") and subject to refund according to A.A.C. R14-2-405.B. Yet, no additions or refunds are shown for AIAC in any years on page 24. Page 22 also shows no balance for AIAC. Page 23 Meter Deposit Balance – Test Year shows \$2,700. Please provide Staff with a schedule of all advances collected and refunded on an annual basis beginning with November 1, 1996 ending December 31, 2002.

Page 25. The prior Staff Report established an amount of \$2,992 for Gross Contributions in Aid of Construction ("CIAC") and \$212 for Accumulated Amortization of CIAC. Decision No. 59080, dated May 5, 1995, established a monthly surcharge of \$4.19 per

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customer account to be collected by the Company and recorded as CIAC beginning on June 1, 1995. Yet, CIAC on page 25 shows no amounts in any years. Page 22 shows a balance for CIAC of \$41,000 with no change during the Test Year. Please provide Staff with a schedule of all surcharge amounts collected and amortizations by calendar year from June 1, 1995 through December 31, 2002.